

CITY OF MILLER
AUDITED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 2011 AND 2010

CITY OF MILLER
CITY OFFICIALS
DECEMBER 31, 2011

Mayor:

Ronald Blachford

Governing Board:

Anthony Rangel
Lorin Johnson
Donald "Casey" Schultz
Mary Johnson
Joe Zeller
Jim Odegaard

Finance Officer:

Laura Smith

Attorney:

Riter, Rogers, Wattier & Northrup, LLP

CITY OF MILLER

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1 – 2
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3 – 4
Schedule of Prior Audit Findings	5
Schedule of Current Audit Findings and Questioned Costs	6 – 11
Independent Auditors' Report	12 – 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
As of December 31, 2011:	
Statement of Net Assets – Modified Cash Basis	14
Year Ended December 31, 2011:	
Statement of Activities – Modified Cash Basis	15
Year Ended December 31, 2010:	
Statement of Activities – Modified Cash Basis	16
Fund Financial Statements:	
Governmental Funds:	
As of December 31, 2011:	
Balance Sheet – Modified Cash Basis	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Year Ended December 31, 2011:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis	19
Year Ended December 31, 2010:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis	20

CITY OF MILLER

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	21
Proprietary Funds:	
As of December 31, 2011:	
Balance Sheet – Modified Cash Basis	22
Year Ended December 31, 2011:	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Modified Cash Basis	23
Year Ended December 31, 2010:	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Modified Cash Basis	24
Notes to the Modified Cash Basis Financial Statements	25 – 35
Supplementary Information:	
Year Ended December 31, 2011:	
Budgetary Comparison Schedule – Budgetary Basis – General Fund	36
Year Ended December 31, 2010:	
Budgetary Comparison Schedule – Budgetary Basis – General Fund	37
Notes to the Supplementary Information	38
Schedule of Expenditures of Federal Awards	39
Schedule of Changes in Long-Term Debt	40

KOHLMAN, BIRSCHBACH & ANDERSON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

ROY R FAUTH, CPA

DAVID S ANDERSON, CPA

WILLIAM J BACHMEIER, CPA

ROSEMARY MUELLER, CPA

117 E. 3RD STREET • PO Box 127
MILLER, SOUTH DAKOTA 57362
605-853-2744 • 605-853-2745 (FAX)

WITH OFFICES IN
MOBRIDGE, SOUTH DAKOTA
LEMMON, SOUTH DAKOTA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Miller
Miller, South Dakota

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Miller, South Dakota, as of December 31, 2011, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items #2011-01, #2011-02, #2011-03, #2011-04 and #2011-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items #2011-02, #2011-06 and #2011-07.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of the City in a separate letter dated August 21, 2012.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of the City of Miller, South Dakota, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §__320, this report is a matter of public record and its distribution is not limited.

Kohlman, Kierachbach & Anderson, LLP

August 21, 2012

KOHLMAN, BIRSCHBACH & ANDERSON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

ROY R FAUTH, CPA
DAVID S ANDERSON, CPA
WILLIAM J BACHMEIER, CPA
ROSEMARY MUELLER, CPA

117 E. 3RD STREET • PO Box 127
MILLER, SOUTH DAKOTA 57362
605-853-2744 • 605-853-2745 (FAX)

WITH OFFICES IN
MOBRIDGE, SOUTH DAKOTA
LEMMON, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Miller
Miller, South Dakota

Compliance

We have audited the City of Miller, South Dakota compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the biennial period ended December 31, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item #2011-02 in the accompanying Schedule of Current Audit Findings and Questioned Costs, the City did not comply with requirement regarding special tests and provisions that are applicable to its Recovery Act-Community Facilities Loans and Grants. Compliance with such requirement is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Miller, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the biennial period ended December 31, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items #2011-01 and #2011-02 to be material weaknesses.

The City of Miller's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the City of Miller, South Dakota, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §__320, this report is matter of public record and its distribution is not limited.

Kohlman, Bierschbach & Anderson, LLP

August 21, 2012

CITY OF MILLER
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010

PRIOR AUDIT FINDINGS:

#2009-01

A lack of proper segregation of duties is the present situation in the City's accounting department. This comment has not been corrected and is restated as current other audit finding #2011-03.

CITY OF MILLER
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011 AND 2010

Summary of the Independent Auditors' Results:

Financial Statements:

- a. An adverse opinion on the financial statements of the discretely presented component unit opinion unit was issued because of its omission of financial data. An unqualified opinion was issued on the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information opinion units.
- b. Material weaknesses were disclosed by our audit of the financial statements. They are described in findings #2011-01, #2011-02, #2011-03, #2011-04, #2011-05
- c. Our audit did disclose instances of noncompliance which were material to the financial statements. These are described in findings #2011-02, #2011-06, and #2011-07.

Federal Awards:

- d. A material weakness was disclosed for internal control over major federal programs for cash management and program income as discussed in finding #2011-01 and for a lack of a surcharge being applied in accordance with a federal loan requirement as discussed in finding #2011-02.
- e. Our opinion on compliance was a qualified opinion on compliance with requirements applicable to the Recovery Act-Community Facilities Loans and Grants.
- f. Our audit did disclose audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, §.510(a). See finding #2011-01 and #2011-02.
- g. The federal awards tested as major programs were:
 - 1. Recovery Act-Community Facilities Loans and Grants #10.766.
 - 2. Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii #14.228.
- h. The dollar threshold used to distinguish between Type A and Type B federal-award programs was \$300,000.
- i. City of Miller did not qualify as a low-risk entity.

CURRENT FEDERAL AUDIT FINDINGS:

Internal Control-Related Findings – Material Weaknesses:

Finding #2011-01

The major federal program affected is Recovery Act-Community Facilities Loans and Grants – CFDA #10.766, Federal Award Year 2010, U.S. Department of Agriculture.

Criteria

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of internal control for cash management and program income for grants and loans obtained through Rural Development.

CITY OF MILLER
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011 AND 2010
(Continued)

Questioned Costs

There are no questioned costs involved.

Recommendation

We recommend the City Council take a more active role in their oversight of cash management and program income.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. He stated, "The City Council will take a more active role in their oversight of cash management and program income."

Finding #2011-02

The major federal program affected is Recovery Act-Community Facilities Loans and Grants – CFDA #10.766, Federal Award Year 2010, U.S. Department of Agriculture.

Criteria

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

Condition Found

A material weakness and compliance concern were reported since one of the Rural Development loan requirements was that the City have a surcharge for the water usage, and at the time of the audit, the City was still not charging the required surcharge.

Questioned Costs

There are no questioned costs involved.

Recommendation

We recommend the City begin charging the surcharge for the water usage, so they can be in compliance with Rural Development loan requirements.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. He stated, "The City Council is taking steps with the assistance of Schmucker, Paul, Nohr, and Associates and Meierhenry Sargent LLP to begin charging the surcharge for water usage."

Federal Compliance-Related Audit Findings and Questioned Costs:

Finding #2011-02

CITY OF MILLER
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011 AND 2010
(Continued)

This comment has already been stated under the section entitled "Internal Control-Related Findings – Material Weaknesses." See that section for more detail on the comment.

CURRENT OTHER AUDIT FINDINGS:

Internal Control-Related Findings – Material Weaknesses:

Finding #2011-01

This comment has already been stated under the section entitled "Current Federal Audit Findings." See that section for more detail on the comment.

Finding #2011-02

This comment has already been stated under the section entitled "Current Federal Audit Findings." See that section for more detail on the comment.

Finding #2011-03

Criteria

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for revenues, cash, and equity.

Effect

This comment is the result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Miller has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, cash, and equity. It is not known how long this comment has been carried forward.

Recommendation

The City is aware of this problem and should attempt to provide compensating controls wherever and whenever possible and practical.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Miller which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Miller has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, cash, and equity. The City of Miller is aware of the problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, the lack of segregation of duties regarding revenues, cash, and equity continues to exist.

CITY OF MILLER
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011 AND 2010
(Continued)

Finding #2011-04

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting modified cash basis.

Condition Found

The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting modified cash basis. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Effect

This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. He stated, "The City accepts the risk of the deficiency. The Council will attempt to provide controls wherever possible."

Finding #2011-05

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with other comprehensive basis of accounting modified cash basis.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Effect

This condition may affect the City's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

CITY OF MILLER
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011 AND 2010
(Continued)

Recommendation

This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. He stated, "The City Council accepts the risk of this deficiency. The Council will attempt to provide control wherever possible."

Other Audit Findings:

Finding #2011-02

This comment has already been stated under the section entitled "Current Federal Audit Findings." See that section for more detail on the comment.

Finding #2011-06

Criteria

South Dakota Codified Laws (SDCL) 9-21-9 limits expenditures to appropriated amounts.

Condition Found

For the year ended December 31, 2010, the City went over budget in the General Fund in the account Debt Service by \$162,421 and in the Transfers Out by \$2,795. For the year ended December 31, 2011, the City went over budget in the General Fund in the account Debt Service by \$162,396 and in the Other General Government by \$262.

Effect

Budgets are required for all funds. Per SDCL 9-21-9, expenditures are limited to the appropriated amounts.

Recommendation

We recommend the City adopt a budget for all funds, limit expenditures to the amount budgeted, adopt a supplemental appropriation ordinance, or make contingency transfers for small line item deficits.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. He stated, "The City Council is aware of this finding and is working to limit expenditures to the amount budgeted and to adopt a supplemental appropriation ordinance and to make contingency transfers for smaller items."

Finding #2011-07

Criteria

CITY OF MILLER
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011 AND 2010
(Continued)

SDCL 5-18A requires cities to bid certain items that they purchase, including purchases of \$25,000 or more for materials, building supplies, or equipment, with certain exceptions.

Condition Found

The City purchased gravel and asphalt that were both required to be bid but were not actually bid. Also, the City purchased an item with an emergency bid, but did not follow SDCL 5-18A-9 which required that there be written documentation stating the basis for the emergency and the selection of the contractor.

Effect

The gravel and asphalt were not properly bid before they were purchased. Therefore, they were not in accordance with South Dakota Codified Law. Also, the emergency bid was not properly documented, so it also was not in accordance with South Dakota Codified Law.

Recommendation

We recommend the City properly bid all items that are required to be bid before they are purchased and follow all laws relating to doing an emergency bid.

Corrective Action Plan

Ron Blachford is the contact person responsible for the corrective action plan for this comment. He stated, "The City will properly bid all items that are required to be bid before they are purchased. The same applies to all emergency bids."

Closing Conference

The contents of this report were discussed with Ron Blachford, Tony Rangel, and Laura Smith on June 25, 2012.

KOHLMAN, BIRSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

ROY R FAUTH, CPA
DAVID S ANDERSON, CPA
WILLIAM J BACHMEIER, CPA
ROSEMARY MUELLER, CPA

117 E. 3RD STREET • PO Box 127
MILLER, SOUTH DAKOTA 57362
605-853-2744 • 605-853-2745 (FAX)

WITH OFFICES IN
MOBRIDGE, SOUTH DAKOTA
LEMMON, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

City Council
City of Miller
Miller, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Miller, South Dakota, as of December 31, 2011, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1.c. to the financial statements, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the discretely presented component unit would have been reported for the year ended December 31, 2011 as \$946,891, \$29,702, \$917,189, \$242,812, and \$234,962 and for the year ended December 31, 2010 as \$936,768, \$27,429, \$909,339, \$226,538, and \$230,174.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, the financial position of the discretely presented component unit of the City of Miller, South Dakota, as of December 31, 2011, or the changes in financial position thereof for each of the years in the biennial period then ended in conformity with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Miller, South Dakota, as of December 31, 2011, and the respective changes in financial position, thereof for each of the years in the biennial period then ended in conformity with the modified cash basis of accounting described in Note 1.c. to the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 21, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the Budgetary Comparison Schedules and the Schedule of Changes in Long-Term Debt, listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the modified cash basis of accounting. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Kohlman, Bierschbach & Anderson, LLP

August 21, 2012

CITY OF MILLER
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2011

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 20,585	\$ 1,338,584	\$ 1,359,169
Investments	-	59,743	59,743
Restricted Assets:			
Cash and cash equivalents	202,185	6,104,825	6,307,010
TOTAL ASSETS	<u>\$ 222,770</u>	<u>\$ 7,503,152</u>	<u>\$ 7,725,922</u>
NET ASSETS:			
Restricted for:			
Debt service purposes	\$ 202,185	\$ 633,010	\$ 835,195
Construction purposes	-	5,471,815	5,471,815
Unrestricted	20,585	1,398,327	1,418,912
TOTAL NET ASSETS	<u>\$ 222,770</u>	<u>\$ 7,503,152</u>	<u>\$ 7,725,922</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 175,455	\$ 23,367	\$ -	\$ -	\$ (152,088)	\$ -	\$ (152,088)
Public safety	323,604	2,148	-	25,575	(295,881)	-	(295,881)
Public works	609,513	1,730	61,882	43,079	(502,822)	-	(502,822)
Health and welfare	2,222	225	-	-	(1,997)	-	(1,997)
Culture and recreation	126,313	12,132	-	-	(114,181)	-	(114,181)
Conservation and development	132,000	-	-	-	(132,000)	-	(132,000)
*Interest on long-term debt	35,960	-	-	-	(35,960)	-	(35,960)
Total Governmental Activities	1,405,067	39,602	61,882	68,654	(1,234,929)	-	(1,234,929)
Business-Type Activities:							
Water	702,570	397,361	-	210,939	-	(94,270)	(94,270)
Sewer	208,333	154,481	-	-	-	(53,852)	(53,852)
Electric	2,793,892	1,908,487	-	-	-	(885,405)	(885,405)
Airport	34,249	-	-	1,844	-	(32,405)	(32,405)
Total Business-Type Activities	3,739,044	2,460,329	-	212,783	-	(1,065,932)	(1,065,932)
Total Primary Government	\$ 5,144,111	\$ 2,499,931	\$ 61,882	\$ 281,437	(1,234,929)	(1,065,932)	(2,300,861)
General Revenues:							
Taxes:							
Property taxes					303,549	-	303,549
Sales taxes					712,494	-	712,494
State shared revenues					10,592	-	10,592
Grants and contributions not restricted to specific programs							
					1,504	-	1,504
Unrestricted investment earnings					784	5,804	6,588
Debt issued					75,500	-	75,500
Miscellaneous revenue					8,079	186,167	194,246
Total General Revenues					1,112,502	191,971	1,304,473
Change in Net Assets					(122,427)	(873,961)	(996,388)
Net Assets - Beginning					345,197	8,377,113	8,722,310
Net Assets - Ending					\$ 222,770	\$7,503,152	\$ 7,725,922

*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 174,891	\$ 25,012	\$ -	\$ -	\$ (149,879)	\$ -	\$ (149,879)
Public safety	284,633	2,043	-	11,899	(270,691)	-	(270,691)
Public works	585,729	6,212	59,253	2,838	(517,426)	-	(517,426)
Health and welfare	2,209	-	-	-	(2,209)	-	(2,209)
Culture and recreation	163,219	13,037	-	4,000	(146,182)	-	(146,182)
Conservation and development	148,982	-	-	-	(148,982)	-	(148,982)
*Interest on long-term debt	41,252	-	-	-	(41,252)	-	(41,252)
Total Governmental Activities	1,400,915	46,304	59,253	18,737	(1,276,621)	-	(1,276,621)
Business-Type Activities:							
Water	1,817,326	373,687	-	658,510	-	(785,129)	(785,129)
Sewer	159,511	151,842	-	8,000	-	331	331
Electric	1,795,883	1,790,746	-	-	-	(5,137)	(5,137)
Airport	74,532	-	-	99,517	-	24,985	24,985
Total Business-Type Activities	3,847,252	2,316,275	-	766,027	-	(764,950)	(764,950)
Total Primary Government	\$ 5,248,167	\$ 2,362,579	\$ 59,253	\$ 784,764	(1,276,621)	(764,950)	(2,041,571)
General Revenues:							
Taxes:							
Property taxes					302,693	-	302,693
Sales taxes					672,191	-	672,191
State shared revenues					10,202	-	10,202
Grants and contributions not restricted to specific programs							
					2,533	-	2,533
Unrestricted investment earnings					2,183	8,023	10,206
Debt issued					-	8,058,169	8,058,169
Miscellaneous revenue					102,231	9,275	111,506
Total General Revenues					1,092,033	8,075,467	9,167,500
Change in Net Assets					(184,588)	7,310,517	7,125,929
Net Assets - Beginning					529,785	1,066,596	1,596,381
Net Assets - Ending					\$ 345,197	\$ 8,377,113	\$ 8,722,310

*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUND
DECEMBER 31, 2011

	<u>General Fund</u>
ASSETS:	
Cash and cash equivalents	\$ 19,077
Restricted cash and cash equivalents	<u>202,185</u>
TOTAL ASSETS	<u>\$ 221,262</u>
FUND BALANCES:	
Restricted	\$ 202,185
Assigned	<u>19,077</u>
TOTAL FUND BALANCES	<u>\$ 221,262</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Total Fund Balances - Governmental Funds	\$ 221,262
--	------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Internal service funds are used by management to charge the costs of activities, such as unemployment insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>1,508</u>
--	--------------

Net Assets - Governmental Activities	<u><u>\$ 222,770</u></u>
--------------------------------------	--------------------------

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>
REVENUES:	
Taxes:	
General property taxes	\$ 302,839
General sales and use taxes	712,494
Penalties and interest on delinquent taxes	710
Licenses and Permits	21,382
Intergovernmental Revenue:	
Federal grants	61,215
State grants	1,611
State shared revenue:	
Bank franchise tax	1,023
Motor vehicle commercial prorate	7,188
Liquor tax reversion	9,569
Motor vehicle licenses (5%)	15,944
County shared revenue:	
County road tax (25%)	4,323
County HBR tax (25%)	34,427
Other intergovernmental revenues	1,949
Charges for Goods and Services:	
General government	128
Public safety	1,865
Highways and streets	1,730
Health	225
Culture and recreation	12,132
Fines and Forfeits:	
Court fines and costs	283
Miscellaneous Revenue:	
Investment earnings	784
Rentals	1,857
Special assessments	4,328
Contributions and donations from private sources	3,004
Other	<u>6,130</u>
TOTAL REVENUE	<u>1,207,140</u>
EXPENDITURES:	
General Government:	
Executive	39,553
Elections	37
Financial administration	98,353
Other	37,512
Public Safety:	
Police	297,514

	<u>General Fund</u>
Fire	24,167
Public Works:	
Highways and streets	489,513
Health and Welfare:	
Health	2,222
Culture and Recreation:	
Recreation	97,851
Parks	26,062
Museums	2,400
Conservation and Development:	
Economic development and assistance (industrial development)	132,000
Debt Service	<u>162,396</u>
TOTAL EXPENDITURES	<u>1,409,580</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(202,440)</u>
OTHER FINANCING SOURCES:	
Compensation for loss or damage to capital assets	4,513
Long-term debt issued	<u>75,500</u>
TOTAL OTHER FINANCING SOURCES	<u>80,013</u>
NET CHANGE IN FUND BALANCE	(122,427)
FUND BALANCE - BEGINNING	<u>343,689</u>
FUND BALANCE - ENDING	<u>\$ 221,262</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2010

	<u>General Fund</u>
REVENUES:	
Taxes:	
General property taxes	\$ 301,790
General sales and use taxes	672,191
Penalties and interest on delinquent taxes	903
Licenses and Permits	22,739
Intergovernmental Revenue:	
Federal grants	11,899
State shared revenue:	
Bank franchise tax	886
Motor vehicle commercial prorate	6,690
Liquor tax reversion	9,316
Motor vehicle licenses (5%)	14,747
County shared revenue:	
County road tax (25%)	4,323
County HBR tax (25%)	33,493
Other intergovernmental revenues	2,384
Charges for Goods and Services:	
General government	416
Public safety	2,043
Highways and streets	6,017
Sanitation	195
Culture and recreation	13,037
Miscellaneous Revenue:	
Investment earnings	2,183
Rentals	1,857
Special assessments	2,838
Contributions and donations from private sources	6,533
Other	<u>4,630</u>
 TOTAL REVENUE	 <u>1,121,110</u>
EXPENDITURES:	
General Government:	
Executive	34,407
Elections	631
Financial administration	114,922
Other	23,477
Public Safety:	
Police	256,877
Fire	23,482
Public Works:	
Highways and streets	470,729

	<u>General Fund</u>
Health and Welfare:	
Health	2,209
Culture and Recreation:	
Recreation	120,666
Parks	40,153
Museums	2,400
Conservation and Development:	
Economic development and assistance (industrial development)	148,982
Debt Service	<u>162,421</u>
TOTAL EXPENDITURES	<u>1,401,356</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(280,246)</u>
OTHER FINANCING SOURCES (USES):	
Sale of municipal property	95,217
Compensation for loss or damage to capital assets	1,895
Transfers out	<u>(2,795)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>94,317</u>
NET CHANGE IN FUND BALANCE	(185,929)
FUND BALANCE - BEGINNING	<u>529,618</u>
FUND BALANCE - ENDING	<u><u>\$ 343,689</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010

Net Change in Fund Balance - Total Governmental Funds	\$ (185,929)
---	--------------

Amounts reported for governmental activities in the statement of activities
are different because:

Internal service funds are used by management to charge the costs of certain activities,
such as unemployment costs, to individual funds. The net revenue of the internal service
fund is reported with governmental activities.

1,341

Change in Net Assets of Governmental Activities	<u>\$ (184,588)</u>
---	---------------------

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-Type Activities Enterprise Funds				Totals	Internal Service Fund
	Water Fund	Sewer Fund	Electric Fund	Airport Fund		
ASSETS:						
Current Assets:						
Cash and cash equivalents	\$ 66,448	\$167,532	\$1,088,017	\$16,587	\$ 1,338,584	\$ 1,508
Investments	-	-	59,743	-	59,743	-
Total Current Assets	<u>66,448</u>	<u>167,532</u>	<u>1,147,760</u>	<u>16,587</u>	<u>1,398,327</u>	<u>1,508</u>
Noncurrent Assets:						
Restricted cash and cash equivalents	43,266	-	6,061,559	-	6,104,825	-
Total Noncurrent Assets	<u>43,266</u>	<u>-</u>	<u>6,061,559</u>	<u>-</u>	<u>6,104,825</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 109,714</u>	<u>\$167,532</u>	<u>\$7,209,319</u>	<u>\$16,587</u>	<u>\$ 7,503,152</u>	<u>\$ 1,508</u>
NET ASSETS:						
Restricted net assets, restricted for:						
Revenue bond debt service	\$ 43,266	\$ -	\$ 589,744	\$ -	\$ 633,010	\$ -
Construction	-	-	5,471,815	-	5,471,815	-
Unrestricted net assets	<u>66,448</u>	<u>167,532</u>	<u>1,147,760</u>	<u>16,587</u>	<u>1,398,327</u>	<u>1,508</u>
TOTAL NET ASSETS	<u>\$ 109,714</u>	<u>\$167,532</u>	<u>\$7,209,319</u>	<u>\$16,587</u>	<u>\$ 7,503,152</u>	<u>\$ 1,508</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities Enterprise Funds				Totals	Internal Service Fund
	Water Fund	Sewer Fund	Electric Fund	Airport Fund		
OPERATING REVENUE:						
Charges for goods and services	\$ 397,361	\$154,481	\$1,908,487	\$ -	\$ 2,460,329	\$ -
TOTAL OPERATING REVENUE	397,361	154,481	1,908,487	-	2,460,329	-
OPERATING EXPENSES:						
Personal services	75,130	92,168	186,549	-	353,847	-
Other current expense	92,526	74,611	108,186	20,984	296,307	-
Materials (cost of goods sold)	187,153	-	1,196,019	-	1,383,172	-
Capital assets	292,098	41,554	739,705	13,265	1,086,622	-
TOTAL OPERATING EXPENSES	646,907	208,333	2,230,459	34,249	3,119,948	-
OPERATING LOSS	(249,546)	(53,852)	(321,972)	(34,249)	(659,619)	-
NONOPERATING REVENUE (EXPENSE):						
Capital grants	210,939	-	-	1,844	212,783	-
Investment earnings	515	568	4,630	91	5,804	-
Rental revenue	-	-	-	7,328	7,328	-
Debt service (principal)	(21,211)	-	(115,000)	-	(136,211)	-
Interest expense	(34,452)	-	(448,433)	-	(482,885)	-
Sale of municipal property	-	-	1,144	-	1,144	-
Other	-	-	177,695	-	177,695	-
TOTAL NONOPERATING REVENUE (EXPENSE)	155,791	568	(379,964)	9,263	(214,342)	-
CHANGE IN NET ASSETS	(93,755)	(53,284)	(701,936)	(24,986)	(873,961)	-
NET ASSETS - BEGINNING	203,469	220,816	7,911,255	41,573	8,377,113	1,508
NET ASSETS - ENDING	\$ 109,714	\$167,532	\$7,209,319	\$16,587	\$ 7,503,152	\$ 1,508

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities Enterprise Funds				Totals	Internal Service Fund
	Water Fund	Sewer Fund	Electric Fund	Airport Fund		
OPERATING REVENUE:						
Charges for goods and services	\$ 373,687	\$151,842	\$1,790,746	\$ -	\$2,316,275	\$ -
TOTAL OPERATING REVENUE	<u>373,687</u>	<u>151,842</u>	<u>1,790,746</u>	<u>-</u>	<u>2,316,275</u>	<u>-</u>
OPERATING EXPENSES:						
Personal services	93,044	71,315	131,147	-	295,506	1,454
Other current expense	99,564	34,399	118,898	11,749	264,610	-
Materials (cost of goods sold)	170,686	-	1,073,554	-	1,244,240	-
Capital assets	<u>1,418,408</u>	<u>53,797</u>	<u>308,284</u>	<u>62,783</u>	<u>1,843,272</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>1,781,702</u>	<u>159,511</u>	<u>1,631,883</u>	<u>74,532</u>	<u>3,647,628</u>	<u>1,454</u>
OPERATING INCOME (LOSS)	<u>(1,408,015)</u>	<u>(7,669)</u>	<u>158,863</u>	<u>(74,532)</u>	<u>(1,331,353)</u>	<u>(1,454)</u>
NONOPERATING REVENUE (EXPENSE):						
Capital grants	658,510	8,000	-	99,517	766,027	-
Investment earnings	742	1,312	5,924	45	8,023	-
Rental revenue	-	-	-	7,329	7,329	-
Debt service (principal)	(13,022)	-	-	-	(13,022)	-
Interest expense	(14,952)	-	-	-	(14,952)	-
Sale of municipal property	1,174	765	7	-	1,946	-
Long-term debt issued	823,169	-	7,235,000	-	8,058,169	-
Other	<u>(7,650)</u>	<u>-</u>	<u>(164,000)</u>	<u>-</u>	<u>(171,650)</u>	<u>-</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>1,447,971</u>	<u>10,077</u>	<u>7,076,931</u>	<u>106,891</u>	<u>8,641,870</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS	39,956	2,408	7,235,794	32,359	7,310,517	(1,454)
TRANSFERS IN	25,000	-	-	-	25,000	2,795
TRANSFERS OUT	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>
CHANGE IN NET ASSETS	64,956	(22,592)	7,235,794	32,359	7,310,517	1,341
NET ASSETS - BEGINNING	<u>138,513</u>	<u>243,408</u>	<u>675,461</u>	<u>9,214</u>	<u>1,066,596</u>	<u>167</u>
NET ASSETS - ENDING	<u>\$ 203,469</u>	<u>\$220,816</u>	<u>\$7,911,255</u>	<u>\$41,573</u>	<u>\$8,377,113</u>	<u>\$1,508</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. **Financial Reporting Entity:**

The reporting entity of the City of Miller consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Housing and Redevelopment Commission of the City of Miller, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Miller Housing and Redevelopment Commission may be obtained from: Miller Housing and Redevelopment Commission, 105 N. Broadway, Miller, SD 57362.

b. **Basis of Presentation:**

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - (Continued)

to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - (Continued)

Electric Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the City electrical system and related facilities (SDCL 9-39-1 and 9-39-26). This is a major fund.

Airport Fund - Financed primarily by user charges and grants, this fund accounts for the construction and operation of the City airport and related facilities (SDCL 50-7-2). This is a major fund.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provided to other funds are as follows: unemployment claims. Internal service funds are never considered to be major funds. The Unemployment Compensation Fund is the only internal service fund maintained by the City.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The City's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are:

1. Recording long-term investments in marketable securities and bank savings certificates (those with maturities more than 90 days (three months) from the date of acquisition) acquired with cash assets at cost.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

f. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - (Continued)

2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

h. Equity Classifications:

Government-Wide Financial Statements:

Equity is classified as net assets and is displayed in two components:

1. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets - All other net assets that do not meet the definition of "restricted".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

i. Application of Net Assets:

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

j. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - (Continued)

2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the City Council.
5. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

CITY OF MILLER
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011

	<u>General Fund</u>
Fund Balances:	
Restricted for:	
Debt Service Requirements	\$202,185
Assigned to:	
Applied to next year's budget	<u>19,077</u>
Total Fund Balances	<u>\$221,262</u>

NOTE 2 - VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 - (Continued)

	Year Ended <u>12/31/2010</u>	Year Ended <u>12/31/2011</u>
General Fund:		
<u>Activity:</u>		
General Government - Other	\$ --	\$ 262
Debt Service	\$162,421	\$162,396
Transfer Out	\$ 2,795	\$ --

The City plans to take the following actions to address these violations: The City is aware of this violation and will make every effort to ensure that expenditures do not exceed appropriations.

NOTE 3 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of all the funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer. All of the City's investments are in a certificate of deposit.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3 - (Continued)

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

NOTE 4 - RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount :</u>	<u>Purpose:</u>
\$ 202,185	For debt service in the General Fund
\$ 43,266	For debt service in the Water Fund
\$ 589,744	For debt service in the Electric Fund
\$5,471,815	For construction in the Electric Fund

NOTE 5 - PROPERTY TAXES

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

NOTE 6 - CONDUIT DEBT

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2011, there was one of the conduit bonds outstanding, with an aggregate unpaid principal amount of \$610,000.

NOTE 7 - RESTRICTED NET ASSETS

Restricted net assets for the year ended December 31, 2011, were as follows:

Major Funds

Debt Service Purposes -- General Fund	\$202,185
Debt Service Purposes -- Water Fund	43,266

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 7 - (Continued)

Debt Service Purposes – Electric Fund	589,744
Construction Purposes – Electric Fund	<u>5,471,815</u>
 Total Restricted Net Assets	 <u>\$6,307,010</u>

These balances are restricted by the terms of bond agreements.

NOTE 8 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010, were as follows:

	<u>Transfer to:</u>	
<u>Transfer From:</u>	<u>Water Fund</u>	<u>Internal Service Fund</u>
Major Funds:		
General Fund	\$ --	\$2,795
Sewer Fund	<u>25,000</u>	<u> --</u>
Totals	<u>\$25,000</u>	<u>\$2,795</u>

The City transferred the money to help with the operation of these funds.

NOTE 9 - RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute at eight percent and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010, and 2009, were \$37,253, \$31,196, and \$31,789, respectively, equal to the required contributions each year.

NOTE 10 - LITIGATION

At December 31, 2011, the City was not involved in any litigation.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through August 21, 2012, the date on which the financial statements were available to be issued. Management has determined there are none.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2011, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, automobile liability, legal liability, and property coverage.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's first full year	50%
End of the City's second full year	60%
End of the City's third full year	70%
End of the City's fourth full year	80%
End of the City's fifth full year	90%
End of the City's sixth full year and thereafter	100%

As of December 31, 2011, the City has vested balance in the cumulative reserve fund of \$36,218.51. This amount does not appear in the financial statements because this is a modified cash basis entity.

The City carries a \$0 deductible for the general liability, automobile liability, and fire damage legal liability coverage, a \$2,000 deductible for the law enforcement operations coverage, and a \$500 deductible for the officials' liability coverage.

CITY OF MILLER
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 12 - (Continued)

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The City has designated equity in the Internal Service Fund in the amount of \$1,508 as of December 31, 2011, for the payment of future unemployment benefits.

During the year ended December 31, 2010, one claim was filed for unemployment benefits. This claim resulted in the payment of benefits in the amount of \$1,453.95. During the year ended December 31, 2011, no claims for unemployment benefits were paid. At December 31, 2011, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

SUPPLEMENTARY INFORMATION

CITY OF MILLER
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
General property taxes	\$ 302,300	\$ 302,300	\$ 302,839	\$ 539
General sales and use taxes	662,000	662,000	712,494	50,494
Penalties and interest on delinquent taxes	500	500	710	210
License and Permits	21,810	21,810	21,382	(428)
Intergovernmental Revenue:				
Federal grants	3,000	13,832	61,215	47,383
State grants	-	-	1,611	1,611
State shared revenue:				
Bank franchise tax	3,000	3,000	1,023	(1,977)
Motor vehicle commercial prorate	6,000	6,000	7,188	1,188
Liquor tax reversion	9,000	9,000	9,569	569
Motor vehicle licenses (5%)	15,000	15,000	15,944	944
County shared revenue:				
County road tax (25%)	6,650	6,650	4,323	(2,327)
County HBR tax (25%)	32,000	32,000	34,427	2,427
Other intergovernmental revenues	3,000	3,000	1,949	(1,051)
Charges for Goods and Services:				
General government	500	500	128	(372)
Public safety	4,000	4,000	1,865	(2,135)
Highways and streets	4,500	4,500	1,730	(2,770)
Health	100	100	225	125
Culture and recreation	13,500	13,500	12,132	(1,368)
Fines and Forfeits:				
Court fines and costs	150	150	283	133
Miscellaneous Revenue:				
Investment earnings	1,800	1,800	784	(1,016)
Rentals	1,850	1,850	1,857	7
Special assessments	2,950	2,950	4,328	1,378
Contributions and donations from private sources	2,000	2,000	3,004	1,004
Other	14,700	14,700	6,130	(8,570)
TOTAL REVENUE	1,110,310	1,121,142	1,207,140	85,998
EXPENDITURES:				
General Government:				
Contingency	10,000	10,000		
Amount transferred		(10,000)		-
Executive	39,415	41,415	39,553	1,862
Elections	1,500	1,500	37	1,463
Financial administration	122,650	124,200	98,353	25,847

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Other	34,500	37,250	37,512	(262)
Public Safety:				
Police	279,700	308,932	297,514	11,418
Fire	54,462	54,462	24,167	30,295
Other protection	500	500	-	500
Public Works:				
Highways and streets	601,104	604,104	489,513	114,591
Health and Welfare:				
Health	2,300	2,300	2,222	78
Culture and Recreation:				
Recreation	148,000	150,700	97,851	52,849
Parks	64,585	64,585	26,062	38,523
Museums	2,400	2,400	2,400	-
Conservation and Development:				
Economic development and assistance (industrial development)	149,000	149,000	132,000	17,000
Debt Service	-	-	162,396	(162,396)
TOTAL EXPENDITURES	<u>1,510,116</u>	<u>1,541,348</u>	<u>1,409,580</u>	<u>131,768</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(399,806)</u>	<u>(420,206)</u>	<u>(202,440)</u>	<u>217,766</u>
OTHER FINANCING SOURCES:				
Transfers in	100,000	100,000	-	(100,000)
Sale of municipal property	5,000	5,000	-	(5,000)
Compensation for loss or damage to capital assets	750	750	4,513	3,763
Long-term debt issued	-	-	75,500	75,500
TOTAL OTHER FINANCING SOURCES	<u>105,750</u>	<u>105,750</u>	<u>80,013</u>	<u>(25,737)</u>
NET CHANGE IN FUND BALANCES	(294,056)	(314,456)	(122,427)	192,029
FUND BALANCE - BEGINNING	<u>343,689</u>	<u>343,689</u>	<u>343,689</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 49,633</u>	<u>\$ 29,233</u>	<u>\$ 221,262</u>	<u>\$ 192,029</u>

CITY OF MILLER
BUDGETARY COMPARISON SCHEDULE-BUDGETARY BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Taxes:				
General property taxes	\$ 297,300	\$ 297,300	\$ 301,790	\$ 4,490
General sales and use taxes	625,000	625,000	672,191	47,191
Penalties and interest on delinquent taxes	500	500	903	403
License and Permits	21,660	21,660	22,739	1,079
Intergovernmental Revenue:				
Federal grants	2,000	2,000	11,899	9,899
State shared revenue:				
Bank franchise tax	3,000	3,000	886	(2,114)
Motor vehicle commercial prorate	5,000	5,000	6,690	1,690
Liquor tax reversion	8,500	8,500	9,316	816
Motor vehicle licenses (5%)	15,000	15,000	14,747	(253)
County shared revenue:				
County road tax (25%)	6,650	6,650	4,323	(2,327)
County HBR tax (25%)	30,000	30,000	33,493	3,493
Other intergovernmental revenues	3,000	3,000	2,384	(616)
Charges for Goods and Services:				
General government	100	100	416	316
Public safety	5,000	5,000	2,043	(2,957)
Highways and streets	4,000	4,000	6,017	2,017
Sanitation	-	-	195	195
Health	100	100	-	(100)
Culture and recreation	14,800	14,800	13,037	(1,763)
Fines and Forfeits:				
Court fines and costs	200	200	-	(200)
Miscellaneous Revenue:				
Investment earnings	-	-	2,183	2,183
Rentals	1,850	1,850	1,857	7
Special assessments	3,500	3,500	2,838	(662)
Contributions and donations from private sources	2,000	2,000	6,533	4,533
Other	24,250	24,250	4,630	(19,620)
TOTAL REVENUE	<u>1,073,410</u>	<u>1,073,410</u>	<u>1,121,110</u>	<u>47,700</u>
EXPENDITURES:				
General Government:				
Contingency	10,000	10,000		
Amount transferred		(10,000)		-
Executive	40,580	40,580	34,407	6,173
Elections	1,500	1,500	631	869
Financial administration	128,870	128,870	114,922	13,948

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Other	42,650	45,150	23,477	21,673
Public Safety:				
Police	284,450	284,450	256,877	27,573
Fire	40,620	40,620	23,482	17,138
Other protection	500	500	-	500
Public Works:				
Highways and streets	415,550	505,550	470,729	34,821
Health and Welfare:				
Health	2,350	2,350	2,209	141
Culture and Recreation:				
Recreation	140,365	140,365	120,666	19,699
Parks	39,465	48,165	40,153	8,012
Museums	2,400	2,400	2,400	-
Conservation and Development:				
Economic development and assistance (industrial development)	149,000	149,000	148,982	18
Debt Service	-	-	162,421	(162,421)
TOTAL EXPENDITURES	<u>1,298,300</u>	<u>1,389,500</u>	<u>1,401,356</u>	<u>(11,856)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(224,890)</u>	<u>(316,090)</u>	<u>(280,246)</u>	<u>35,844</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	100,000	100,000	-	(100,000)
Sale of municipal property	5,000	85,000	95,217	10,217
Transfers out	-	-	(2,795)	(2,795)
Compensation for loss or damage to capital assets	500	500	1,895	1,395
TOTAL OTHER FINANCING SOURCES (USES)	<u>105,500</u>	<u>185,500</u>	<u>94,317</u>	<u>(91,183)</u>
NET CHANGE IN FUND BALANCES	(119,390)	(130,590)	(185,929)	(55,339)
FUND BALANCE - BEGINNING	<u>529,618</u>	<u>529,618</u>	<u>529,618</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 410,228</u>	<u>\$ 399,028</u>	<u>\$ 343,689</u>	<u>\$ (55,339)</u>

CITY OF MILLER
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
DECEMBER 31, 2011 AND 2010

NOTE 1 - Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the schedules:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total City budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2 - Other Comprehensive Basis of Accounting Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

CITY OF MILLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TWO YEARS ENDED DECEMBER 31, 2011 AND 2010

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures 2011	Expenditures 2010
US Department of Agriculture:			
Direct Federal Funding:			
Rural Development:			
Recovery Act-Community Facilities			
Loans and Grants (Note 2)	10.766	\$ 273,388	\$ 810,358
Total US Department of Agriculture		273,388	810,358
US Department of Housing and Urban Development:			
CDBG - State-Administered Small Cities Program Cluster:			
Indirect Federal Funding:			
SD Governor's Office of Economic Development,			
Community Development Block Grant/State's			
Program and Non-Entitlement Grants in			
Hawaii (Note 2)	14.228	-	515,000
Total US Department of Housing and Urban Development		-	515,000
US Department of Justice:			
Justice Assistance Grant (JAG) Cluster:			
Indirect Federal Funding:			
SD Department of Public Safety,			
Recovery Act - Edward Byrne Memorial Justice			
Assistance Grant (JAG) Program/ Grants to			
States and Territories	16.803	-	4,740
Total US Department of Justice		-	4,740
US Department of Transportation:			
Highway Safety Cluster:			
Indirect Federal Funding:			
SD Department of Public Safety,			
State and Community Highway Safety	20.600	10,384	7,158
Total Highway Safety Cluster		10,384	7,158
Other Programs:			
Indirect Federal Funding:			
SD Department of Transportation,			

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures 2011	Expenditures 2010
Airport Improvement Program	20.106	1,844	55,048
Total US Department of Transportation		12,228	62,206
US General Services Administration: Indirect Federal Funding: SD Federal Property Agency, Donation of Federal Surplus Personal Property (Note 3)	39.003	91	271
Total US General Services Administration		91	271
US Environmental Protection Agency: Indirect Federal Funding: SD Department of Environment and Natural Resources, Leaking Underground Storage Tank Trust Fund Corrective Action Program-Recovery Act	66.805	13,679	-
Total US Environmental Protection Agency		13,679	-
US Department of Homeland Security: Other Programs: Indirect Federal Funding: Office of Emergency Management, Disaster Grants-Public Assistance	97.036	12,080	-
Total US Department of Homeland Security		12,080	-
GRAND TOTAL		\$ 311,466	\$ 1,392,575

Note 1: This accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified cash basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2: This represents a Major Federal Financial Assistance Program.

Note 3: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City.

CITY OF MILLER
SCHEDULE OF CHANGES IN LONG-TERM DEBT
TWO YEARS ENDED DECEMBER 31, 2011 AND 2010

Indebtedness	Long-Term Debt 01/01/2010	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/2011
GOVERNMENTAL LONG-TERM DEBT:				
Revenue bonds	\$ 1,044,431	\$ -	\$ (247,605)	\$ 796,826
Other long-term liabilities	-	75,500	-	75,500
ENTERPRISE LONG-TERM DEBT:				
Revenue bonds	<u>167,220</u>	<u>8,058,169</u>	<u>(149,232)</u>	<u>8,076,157</u>
Total	<u>\$ 1,211,651</u>	<u>\$ 8,133,669</u>	<u>\$ (396,837)</u>	<u>\$ 8,948,483</u>